

CITY OF CHEROKEE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

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CITY OF CHEROKEE
OFFICIALS

(Before January 1, 2006)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Henrich	Mayor	January 2006
Bill Troth	Council Member, Mayor Pro-Tem	January 2008
Ron Johnson	Council Member	January 2008
Dwight Varce	Council Member	January 2008
Doug Woods	Council Member	January 2006
Marty Zauhar	Council Member	January 2006
Debra Taylor	City Clerk/Treasurer	Indefinite
Ron Strickland	City Administrator	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

(After January 1, 2006)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Henrich	Mayor	January 2010
Bill Troth (through January 2006)	Council Member, Mayor Pro-Tem	
Doug Woods (beginning March 2006)	Council Member	Temporary pending special election
Ron Johnson	Council Member, Mayor Pro-Tem	January 2008
Dwight Varce	Council Member	January 2008
Bob Leach	Council Member	January 2010
Mick Mallory	Council Member	January 2010
Debra Taylor	City Clerk/Treasurer	Indefinite
Ron Strickland (through April 2006)	City Administrator	
M.W. Miller, Jr.	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Cherokee's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Cherokee, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Cherokee, Iowa as of June 30, 2006, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Cherokee, Iowa at June 30, 2006, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2006 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 19 through 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Wintner, Steve HC LHP". The signature is written in a cursive, flowing style.

September 11, 2006

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts		
		Charges for	Operating	Capital
	Disbursements	Service	Grants and	Grants and
			Contributions	Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 935,557	\$ 34,972	\$ 14,150	
Public works	449,696	9,247	450,368	
Culture and recreation	909,802	59,243	5,499	
Community and economic development	1,777			
General government	176,529			
Debt service	1,192,475			\$ 52,077
Capital projects	211,407			
Total governmental activities	<u>3,877,243</u>	<u>103,462</u>	<u>470,017</u>	<u>52,077</u>
Business-type activities:				
Water	669,375	678,181		
Sewer	1,341,340	1,181,313		
Landfill	145,260	140,226		
Solid waste	227,300	201,978		
Storm water	17,428	80,557		
Airport	1,219		32,539	
Total business-type activities	<u>2,401,922</u>	<u>2,282,255</u>	<u>32,539</u>	
TOTAL	<u>\$6,279,165</u>	<u>\$2,385,717</u>	<u>\$ 502,556</u>	<u>\$ 52,077</u>
General Receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment interest ...				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets - beginning of year				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted:				
Debt service				
Road use				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (886,435)		\$ (886,435)
9,919		9,919
(845,060)		(845,060)
(1,777)		(1,777)
(176,529)		(176,529)
(1,140,398)		(1,140,398)
(211,407)		(211,407)
<u>(3,251,687)</u>		<u>(3,251,687)</u>
	\$ 8,806	8,806
	(160,027)	(160,027)
	(5,034)	(5,034)
	(25,322)	(25,322)
	63,129	63,129
	<u>31,320</u>	<u>31,320</u>
	<u>(87,128)</u>	<u>(87,128)</u>
<u>(3,251,687)</u>	<u>(87,128)</u>	<u>(3,338,815)</u>
1,334,156		1,334,156
170,779		170,779
297,359		297,359
400,010		400,010
83,744		83,744
946		946
193,391	15,683	209,074
405,617	11,315	416,932
<u>(55,115)</u>	<u>55,115</u>	
<u>2,830,887</u>	<u>82,113</u>	<u>2,913,000</u>
(420,800)	(5,015)	(425,815)
<u>2,673,359</u>	<u>777,291</u>	<u>3,450,650</u>
<u>\$2,252,559</u>	<u>\$ 772,276</u>	<u>\$3,024,835</u>
\$ 393,555	\$ 403,671	\$ 797,226
282,885		282,885
58,983		58,983
1,361,330		1,361,330
<u>155,806</u>	<u>368,605</u>	<u>524,411</u>
<u>\$2,252,559</u>	<u>\$ 772,276</u>	<u>\$3,024,835</u>

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
RECEIPTS:			
Property tax	\$ 856,524		\$ 450,907
Tax increment financing collections			
Other city tax			
Licenses and permits	27,469		
Use of money and property	143,099	\$ 4,743	
Intergovernmental	31,469	449,522	
Charges for service	59,620		
Special assessments			
Miscellaneous	174,846	34,227	171,344
TOTAL RECEIPTS	<u>1,293,027</u>	<u>488,492</u>	<u>622,251</u>
DISBURSEMENTS:			
Operating:			
Public safety	563,281		372,276
Public works		411,483	70,830
Culture and recreation	463,087		95,874
Community and economic development	150		
General government	239,590		56,324
Debt service			
Capital projects			
TOTAL DISBURSEMENTS	<u>1,266,108</u>	<u>411,483</u>	<u>595,304</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>26,919</u>	<u>77,009</u>	<u>26,947</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in		119,287	
Operating transfers out	(2,500)	(25,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,500)</u>	<u>94,287</u>	
NET CHANGE IN CASH BALANCES	24,419	171,296	26,947
CASH BALANCES - BEGINNING OF YEAR	<u>131,387</u>	<u>111,589</u>	<u>32,036</u>
CASH BALANCES - END OF YEAR	<u>\$ 155,806</u>	<u>\$ 282,885</u>	<u>\$ 58,983</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service			
Unreserved:			
General fund	\$ 155,806		
Special revenue funds		\$ 282,885	\$ 58,983
Capital projects fund			
Permanent fund			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 155,806</u>	<u>\$ 282,885</u>	<u>\$ 58,983</u>

Exhibit B

<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 297,359	\$ 26,725	\$1,631,515
	170,779	170,779
	483,754	483,754
		27,469
9,340	36,209	193,391
	6,345	487,336
		59,620
52,077		52,077
<u>7,720</u>	<u>179,297</u>	<u>567,434</u>
<u>366,496</u>	<u>903,109</u>	<u>3,673,375</u>
		935,557
	4,000	486,313
	350,841	909,802
	1,627	1,777
		295,914
1,192,475		1,192,475
	<u>211,407</u>	<u>211,407</u>
<u>1,192,475</u>	<u>567,875</u>	<u>4,033,245</u>
<u>(825,979)</u>	<u>335,234</u>	<u>(359,870)</u>
703,324	55,008	877,619
	(905,234)	(932,734)
<u>703,324</u>	<u>(850,226)</u>	<u>(55,115)</u>
(122,655)	(514,992)	(414,985)
<u>516,210</u>	<u>1,754,587</u>	<u>2,545,809</u>
<u>\$ 393,555</u>	<u>\$1,239,595</u>	<u>\$2,130,824</u>
\$ 393,555		\$ 393,555
		155,806
	\$ 404,356	746,224
	699,802	699,802
	<u>135,437</u>	<u>135,437</u>
<u>\$ 393,555</u>	<u>\$1,239,595</u>	<u>\$2,130,824</u>

See Notes to Financial Statements

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7)	\$2,130,824
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Amounts reported for governmental activities in the Statement of Activities and
 Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>121,735</u>
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CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$2,252,559</u>
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NET CHANGE IN CASH BALANCES (Page 7)	\$ (414,985)
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Amounts reported for governmental activities in the Statement of Activities and Net
 Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	<u>(5,815)</u>
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CHANGE IN CASH BALANCE OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$ (420,800)</u>
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CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$733,743	\$1,282,034	\$422,761	\$2,438,538	
Use of money and property	11,717	2,400	1,566	15,683	\$ 1,709
Miscellaneous		11,115	200	11,315	
TOTAL OPERATING RECEIPTS	<u>745,460</u>	<u>1,295,549</u>	<u>424,527</u>	<u>2,465,536</u>	<u>1,709</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>522,714</u>	<u>1,046,289</u>	<u>391,207</u>	<u>1,960,210</u>	<u>7,524</u>
TOTAL OPERATING DISBURSEMENTS	<u>522,714</u>	<u>1,046,289</u>	<u>391,207</u>	<u>1,960,210</u>	<u>7,524</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>222,746</u>	<u>249,260</u>	<u>33,320</u>	<u>505,326</u>	<u>(5,815)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Intergovernmental			32,539	32,539	
Debt service	<u>(202,223)</u>	<u>(395,772)</u>		<u>(597,995)</u>	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(202,223)</u>	<u>(395,772)</u>	<u>32,539</u>	<u>(565,456)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	20,523	(146,512)	65,859	(60,130)	(5,815)
Operating transfers - net		<u>35,888</u>	<u>19,227</u>	<u>55,115</u>	
NET CHANGE IN CASH BALANCES	20,523	(110,624)	85,086	(5,015)	(5,815)
CASH BALANCES - BEGINNING OF YEAR	<u>697,724</u>	<u>41,194</u>	<u>38,373</u>	<u>777,291</u>	<u>127,550</u>
CASH BALANCES - END OF YEAR	<u>\$718,247</u>	<u>\$ (69,430)</u>	<u>\$123,459</u>	<u>\$ 772,276</u>	<u>\$121,735</u>
CASH BASIS FUND BALANCES:					
Reserved for debt service	\$306,512	\$ 97,159		\$ 403,671	
Unreserved	<u>411,735</u>	<u>(166,589)</u>	<u>\$123,459</u>	<u>368,605</u>	<u>\$121,735</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$718,247</u>	<u>\$ (69,430)</u>	<u>\$123,459</u>	<u>\$ 772,276</u>	<u>\$121,735</u>

CITY OF CHEROKEE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2006

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR	\$ _____
RECEIPTS:	
Property tax	14,847
Miscellaneous	_____
TOTAL RECEIPTS	14,847
DISBURSEMENTS:	
To other governments	14,847
CASH BALANCE - END OF YEAR	\$ _____

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements are intended to present only the primary government of the City of Cherokee. Therefore, the financial statements do not include financial data for any legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government if the financial statements were intended to present the cash basis financial position of the reporting entity of the City of Cherokee.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as other nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance coverage.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, community and economic development, and capital projects functions.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, \$6,525 was held in trust on behalf of the City from the \$1,785,000 proceeds of general obligation bonds issued in 2004. The funds are maintained by the trustee in an insured deposit account.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2006.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 725,000	\$ 242,477	\$ 393,000	\$ 198,304	\$ 1,118,000	\$ 440,781
2008	745,000	221,410	405,000	182,798	1,150,000	404,208
2009	770,000	197,756	423,000	166,458	1,193,000	364,214
2010	775,000	169,328	441,000	149,090	1,216,000	318,418
2011	795,000	139,260	255,000	130,744	1,050,000	270,004
2012 - 2016	2,450,000	260,385	1,416,000	513,368	3,866,000	773,753
2017 - 2021			1,683,000	246,310	1,683,000	246,310
2022 - 2023			426,000	19,260	426,000	19,260
Total	<u>\$6,260,000</u>	<u>\$1,230,616</u>	<u>\$5,442,000</u>	<u>\$1,606,332</u>	<u>\$11,702,000</u>	<u>\$2,836,948</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to the water and sewer reserve accounts shall be made until specific minimum balances have been accumulated. The water reserve account, which exceeds its minimum balance requirement, is restricted for the purpose of paying principal at maturity or interest on the water revenue notes if sufficient money is not available in the Sinking Fund. Transfers received by the sewer reserve fund equal one-fourth of the amount transferred to the sewer revenue sinking account. The reserve fund balance shall be used solely for the purpose of paying principal at maturity or interest on the sewer revenue notes if sufficient money is not available in the Sinking Fund. Effective July 1, 2006, the Iowa Finance Authority has determined reserve funds are no longer required for the sewer revenue notes.
- d. All funds remaining in the city water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue improvement fund at a minimum rate of \$5,000 per month until a minimum of \$200,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension, or repair to the system or for note and interest payments which the other accounts might be unable to make.

At June 30, 2006 the balances of these special funds included in the respective utility fund balance are as follows:

	<u>Water</u>	<u>Sewer</u>
Bond and interest sinking	\$ 22,158	\$ (2,014)
Bond reserve	204,863	99,173
Improvement	<u>79,491</u>	<u> </u>
TOTAL	<u>\$306,512</u>	<u>\$ 97,159</u>

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$80,928, \$79,550, and \$77,863, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is \$108,991.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2006.

6. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$138,672 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county.

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Parks & Recreation Capital Improvement	General	\$ 2,500
Airport	Special Revenue: Emergency	<u>2,452</u>
Debt Service	Special Revenue: Local Option Sales Tax	500,000
	Special Revenue: Urban Renewal TIF	<u>203,324</u>
		<u>703,324</u>
Capital Projects	Special Revenue: Road Use	25,000
	Special Revenue: Hotel/motel tax	20,000
	Special Revenue: Emergency	<u>7,508</u>
		<u>52,508</u>
Sewer	Special Revenue: Urban Renewal TIF	<u>35,888</u>
Solid Waste	Special Revenue: Emergency	<u>16,775</u>
Road Use	Special Revenue: Urban Renewal TIF	<u>119,287</u>
Total		<u>\$932,734</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$6,022 during the year ended June 30, 2006.

9. LOCAL GOVERNMENT RISK POOL

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2006 were \$96,241.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. LOANS RECEIVABLE

At June 30, 2006, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

Filter Recycling - \$30,000 loan on October 1, 1997, payable in 122 monthly payments of \$302.27, including interest at 5%.	\$ 5,231
Cherokee Family Daycare - \$25,000 loan on April 23, 2002, payable in 72 monthly payments of \$400, including interest at 5%.	8,955
American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%.	<u>17,879</u>
TOTAL	<u>\$ 32,065</u>

11. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2006:

<u>Fund</u>	<u>Deficit Balance June 30, 2006</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Proprietary:			
Sewer Utility	\$ (69,430)	Project costs	Reduce spending
Landfill	(5,477)	Increase in expenditures	Reduce spending
Airport	(35,582)	Project costs	Transfers from other funds
Solid Waste	(554)	Increase in expenditures	Reduce spending

12. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

13. COMMITMENT

At June 30, 2006, the City had construction contracts for sewer improvements, street improvements, and for the aquatic center project totaling approximately \$3,236,000, of which approximately \$2,913,700 remained outstanding. The City expects to issue \$400,000 in general obligation bonds in August 2006 related to the city's contribution to the aquatic center project. The remainder of the \$2,800,000 aquatic center project is expected to be paid from private donations and a \$400,000 grant. The balance on the contracts will be paid as the projects progress.

14. JOINTLY-GOVERNED ORGANIZATION

The City participates in the Cherokee Aviation Authority, a jointly-governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Two members of the Cherokee Aviation Authority board are appointed by the City Council, two members are appointed by Cherokee County, and one member selected by the Cherokee Aviation Authority. The primary sources of funding for the Cherokee Aviation Authority are a tax levy by the City and Cherokee County, hangar rent, and the sale of fuel.

The City has no equity interest nor does the City materially contribute to the continued existence of the Cherokee Aviation Authority. The Cherokee Aviation Authority will be responsible for maintaining the financial records for the 28E entity.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$1,631,515		
Tax increment financing collections	170,779		
Other city tax	483,754		
Licenses and permits	27,469		
Use of money and property	193,391	\$ 17,392	\$ 4,213
Intergovernmental	487,336	32,539	
Charges for service	59,620	2,438,538	156,283
Special assessments	52,077		
Miscellaneous	<u>567,434</u>	<u>11,315</u>	<u>161,817</u>
TOTAL RECEIPTS	<u>3,673,375</u>	<u>2,499,784</u>	<u>322,313</u>
DISBURSEMENTS:			
Public safety	935,557		
Public works	486,313		48,247
Culture and recreation	909,802		
Community and economic development	1,777		
General government	295,914		119,385
Debt service	1,192,475		225,507
Capital projects	211,407		
Business-type activities		<u>2,565,729</u>	<u>156,283</u>
TOTAL DISBURSEMENTS	<u>4,033,245</u>	<u>2,565,729</u>	<u>549,422</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(359,870)	(65,945)	(227,109)
OTHER FINANCING SOURCES - NET	<u>(55,115)</u>	<u>55,115</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(414,985)	(10,830)	(227,109)
BALANCES - BEGINNING OF YEAR	<u>2,545,809</u>	<u>904,841</u>	<u>(1,297,572)</u>
BALANCES - END OF YEAR	<u>\$2,130,824</u>	<u>\$ 894,011</u>	<u>\$(1,524,681)</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$1,631,515	\$1,600,581	\$1,600,581	\$ 30,934
170,779	234,200	251,200	(80,421)
483,754	460,216	460,216	23,538
27,469	17,675	17,675	9,794
206,570	66,315	134,145	72,425
519,875	474,950	474,950	44,925
2,341,875	2,529,706	2,539,706	(197,831)
52,077	35,000	35,000	17,077
<u>416,932</u>	<u>447,978</u>	<u>582,768</u>	<u>(165,836)</u>
<u>5,850,846</u>	<u>5,866,621</u>	<u>6,096,241</u>	<u>(245,395)</u>
935,557	818,190	979,439	43,882
438,066	615,279	129,626	(308,440)
909,802	656,543	986,143	76,341
1,777	200	1,169	(608)
176,529	296,726	310,080	133,551
966,968	972,599	972,599	5,631
211,407	19,600	125,998	(85,409)
<u>2,409,446</u>	<u>2,493,719</u>	<u>2,843,134</u>	<u>433,688</u>
<u>6,049,552</u>	<u>5,872,856</u>	<u>6,348,188</u>	<u>298,636</u>
(198,706)	(6,235)	(251,947)	53,241
_____	_____	_____	_____
(198,706)	<u>\$ (6,235)</u>	<u>\$ (251,947)</u>	<u>\$ 53,241</u>
<u>4,748,222</u>			
<u>\$4,549,516</u>			

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$475,332. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the following functions: public works, community and economic development, and capital projects.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue		
	Capital Projects	Emergency	Local Option Sales Tax
RECEIPTS:			
Property tax		\$ 26,725	
Tax increment financing collections			
Other city tax			\$400,010
Use of money and property	\$ 18,498		13,081
Intergovernmental	846		
Miscellaneous	130,772		
TOTAL RECEIPTS	<u>150,116</u>	<u>26,725</u>	<u>413,091</u>
DISBURSEMENTS:			
Operating:			
Public works	4,000		
Culture and recreation	267,799		
Community and economic development	1,627		
Capital projects	177,597		
TOTAL DISBURSEMENTS	<u>451,023</u>		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(300,907)</u>	<u>26,725</u>	<u>413,091</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	52,508		
Operating transfers out		(26,735)	(500,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>52,508</u>	<u>(26,735)</u>	<u>(500,000)</u>
NET CHANGE IN CASH BALANCES	(248,399)	(10)	(86,909)
CASH BALANCES - BEGINNING OF YEAR	<u>948,201</u>	<u>10</u>	<u>302,878</u>
CASH BALANCES - END OF YEAR	<u>\$699,802</u>	<u>\$</u>	<u>\$215,969</u>
CASH BASIS FUND BALANCES:			
Unreserved:			
Special revenue funds			\$215,969
Capital projects	\$699,802		
Permanent fund			
TOTAL CASH BASIS FUND BALANCES	<u>\$699,802</u>	<u>\$</u>	<u>\$215,969</u>

<u>Hotel/ Motel</u>	<u>Urban Renewal TIF</u>	<u>Revolving Loan</u>	<u>Library Memorial</u>	<u>Parks & Recreation Capital Improvements</u>
\$ 83,744	\$170,779			
		\$ 1,071		\$ 469
<u>7,500</u>	<u>6,000</u>	<u>10,470</u>	<u>\$ 5,499</u>	<u>7,251</u>
<u>91,244</u>	<u>176,779</u>	<u>11,541</u>	<u>20,478</u>	<u>7,720</u>
48,205			16,200	14,677
<u>48,205</u>	<u>33,810</u>	<u> </u>	<u>16,200</u>	<u>14,677</u>
<u>43,039</u>	<u>142,969</u>	<u>11,541</u>	<u>4,278</u>	<u>(6,957)</u>
<u>(20,000)</u>	<u>(358,499)</u>	<u> </u>	<u> </u>	<u>2,500</u>
<u>(20,000)</u>	<u>(358,499)</u>	<u> </u>	<u> </u>	<u>2,500</u>
23,039	(215,530)	11,541	4,278	(4,457)
<u>6,414</u>	<u>251,680</u>	<u>47,695</u>	<u>6,465</u>	<u>57,262</u>
<u>\$ 29,453</u>	<u>\$ 36,150</u>	<u>\$ 59,236</u>	<u>\$ 10,743</u>	<u>\$ 52,805</u>
\$ 29,453	\$ 36,150	\$ 59,236	\$ 10,743	\$ 52,805
<u>\$ 29,453</u>	<u>\$ 36,150</u>	<u>\$ 59,236</u>	<u>\$ 10,743</u>	<u>\$ 52,805</u>

CITY OF CHEROKEE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - Continued
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
RECEIPTS:		
Property tax		\$ 26,725
Tax increment financing collections		170,779
Other city tax		483,754
Use of money and property	\$ 3,090	36,209
Intergovernmental		6,345
Miscellaneous	2,325	179,297
TOTAL RECEIPTS	<u>5,415</u>	<u>903,109</u>
DISBURSEMENTS:		
Operating:		
Public works		4,000
Culture and recreation	3,960	350,841
Community and economic development		1,627
Capital projects		211,407
TOTAL DISBURSEMENTS	<u>3,960</u>	<u>567,875</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>1,455</u>	<u>335,234</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in		55,008
Operating transfers out		(905,234)
TOTAL OTHER FINANCING SOURCES (USES)		<u>(850,226)</u>
NET CHANGE IN CASH BALANCES	1,455	(514,992)
CASH BALANCES - BEGINNING OF YEAR	<u>133,982</u>	<u>1,754,587</u>
CASH BALANCES - END OF YEAR	<u>\$135,437</u>	<u>\$1,239,595</u>
CASH BASIS FUND BALANCES:		
Unreserved:		
Special revenue funds		\$ 404,356
Capital projects		699,802
Permanent fund	<u>\$135,437</u>	<u>135,437</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$135,437</u>	<u>\$1,239,595</u>

CITY OF CHEROKEE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Business-Type Activities - Enterprise Funds				
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Airport</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charges for service	\$140,226	\$201,978	\$ 80,557		\$422,761
Use of money and property			1,566		1,566
Miscellaneous				\$ 200	200
TOTAL OPERATING RECEIPTS	<u>140,226</u>	<u>201,978</u>	<u>82,123</u>	<u>200</u>	<u>424,527</u>
OPERATING DISBURSEMENTS:					
Business type activities	<u>145,260</u>	<u>227,300</u>	<u>17,428</u>	<u>1,219</u>	<u>391,207</u>
TOTAL OPERATING DISBURSEMENTS	<u>145,260</u>	<u>227,300</u>	<u>17,428</u>	<u>1,219</u>	<u>391,207</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(5,034)	(25,322)	64,695	(1,019)	33,320
NONOPERATING RECEIPTS:					
Transfers in		16,775		2,452	19,227
Intergovernmental				<u>32,539</u>	<u>32,539</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(5,034)	(8,547)	64,695	33,972	85,086
CASH BALANCES - BEGINNING OF YEAR	<u>(443)</u>	<u>7,993</u>	<u>100,377</u>	<u>(69,554)</u>	<u>38,373</u>
CASH BALANCES - END OF YEAR	<u>\$ (5,477)</u>	<u>\$ (554)</u>	<u>\$165,072</u>	<u>\$ (35,582)</u>	<u>\$123,459</u>
CASH BASIS FUND BALANCES:					
Unreserved	<u>\$ (5,477)</u>	<u>\$ (554)</u>	<u>\$165,072</u>	<u>\$ (35,582)</u>	<u>\$123,459</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ (5,477)</u>	<u>\$ (554)</u>	<u>\$165,072</u>	<u>\$ (35,582)</u>	<u>\$123,459</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
Essential corporate purpose (miscellaneous projects)	3-1-00	4.90 - 5.35%	\$ 750,000	\$ 320,000
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	1,000,000	805,000
Essential corporate purpose (miscellaneous projects)	7-1-02	2.50 - 4.70%	1,430,000	1,165,000
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	1,685,000
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	3,200,000	<u>3,200,000</u>
TOTAL				<u>\$7,175,000</u>
Revenue Notes:				
Sewer	9-30-99	4.23%	\$2,170,000	\$1,867,000
Water	4-01-02	3.25 - 5.00%	1,330,000	885,000
Sewer	6-19-02	3.00%	3,390,000	<u>3,064,701</u>
TOTAL				<u>\$5,816,701</u>

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ (320,000)		\$ 16,968	
	(55,000)	\$ 750,000	45,845	
	(90,000)	1,075,000	51,440	
	(165,000)	1,520,000	43,053	
<u> </u>	<u>(285,000)</u>	<u>2,915,000</u>	<u>118,295</u>	<u> </u>
<u>\$ </u>	<u>\$ (915,000)</u>	<u>\$6,260,000</u>	<u>\$275,601</u>	<u>\$ </u>
	\$ (84,000)	\$1,783,000	\$ 78,974	
	(160,000)	725,000	41,823	
<u>\$ 299</u>	<u>(131,000)</u>	<u>2,934,000</u>	<u>91,946</u>	<u> </u>
<u>\$ 299</u>	<u>\$ (375,000)</u>	<u>\$5,442,000</u>	<u>\$212,743</u>	<u>\$ </u>

CITY OF CHEROKEE
BOND AND NOTE MATURITIES
JUNE 30, 2006

General Obligation Bonds

Year Ending <u>June 30,</u>	Miscellaneous Projects			
	<u>Issued 11-01-2000</u>		<u>Issued 7-1-2002</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2007	6.00%	\$ 60,000	4.00%	\$ 90,000
2008	5.90%	60,000	4.20%	85,000
2009	5.90%	65,000	4.35%	210,000
2010	5.90%	70,000	4.50%	220,000
2011	5.40%	70,000	4.60%	230,000
2012	5.45%	75,000	4.70%	240,000
2013	5.50%	80,000		
2014	5.55%	85,000		
2015	5.60%	90,000		
2016	5.70%	<u>95,000</u>		
TOTAL		<u>\$ 750,000</u>		<u>\$1,075,000</u>

Year Ending <u>June 30,</u>	<u>Revenue Notes</u>					
	<u>Sewer Issued 9-30-99</u>		<u>Water Issued 4-1-02</u>		<u>Sewer Issued 6-19-02</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2007	4.23%	\$ 88,000	4.55%	\$ 170,000	3.00%	\$ 135,000
2008	4.23%	91,000	4.75%	175,000	3.00%	139,000
2009	4.23%	95,000	4.90%	185,000	3.00%	143,000
2010	4.23%	99,000	5.00%	195,000	3.00%	147,000
2011	4.23%	103,000			3.00%	152,000
2012	4.23%	107,000			3.00%	156,000
2013	4.23%	112,000			3.00%	161,000
2014	4.23%	118,000			3.00%	166,000
2015	4.23%	122,000			3.00%	171,000
2016	4.23%	127,000			3.00%	176,000
2017	4.23%	132,000			3.00%	181,000
2018	4.23%	138,000			3.00%	187,000
2019	4.23%	144,000			3.00%	192,000
2020	4.23%	150,000			3.00%	198,000
2021	4.23%	157,000			3.00%	204,000
2022					3.00%	210,000
2023					3.00%	216,000
TOTAL		<u>\$1,783,000</u>		<u>\$ 725,000</u>		<u>\$2,934,000</u>

Miscellaneous Projects				
Issued 4-15-2004		Issued 6-15-2004		
Interest Rates	Amount	Interest Rates	Amount	Total
1.95%	\$ 280,000	2.85%	\$ 295,000	\$ 725,000
2.30%	295,000	3.20%	305,000	745,000
2.55%	180,000	3.45%	315,000	770,000
2.75%	185,000	3.65%	300,000	775,000
3.00%	185,000	3.85%	310,000	795,000
3.20%	195,000	4.05%	325,000	835,000
3.35%	200,000	4.20%	340,000	620,000
		4.35%	355,000	440,000
		4.50%	370,000	460,000
				95,000
	<u>\$1,520,000</u>		<u>\$2,915,000</u>	<u>\$6,260,000</u>

Total
 \$ 393,000
 405,000
 423,000
 441,000
 255,000
 263,000
 273,000
 284,000
 293,000
 303,000
 313,000
 325,000
 336,000
 348,000
 361,000
 210,000
216,000
\$5,442,000

CITY OF CHEROKEE
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
RECEIPTS:				
Property and other city tax	\$2,115,269	\$1,980,336	\$2,073,806	\$1,976,920
Tax increment financing collections	170,779	221,297	203,467	225,979
Licenses and permits	27,469	25,519	27,128	24,229
Use of money and property	193,391	133,901	88,240	88,156
Intergovernmental	487,336	528,684	1,184,756	695,258
Charges for service	59,620	69,978	82,648	75,819
Special assessments	52,077	225,640	24,633	46,920
Miscellaneous	<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>	<u>427,510</u>
 TOTAL REVENUES	 <u>\$3,673,375</u>	 <u>\$3,555,943</u>	 <u>\$4,889,283</u>	 <u>\$3,560,791</u>
 DISBURSEMENTS:				
Public safety	\$ 935,557	\$ 842,842	\$ 825,650	\$ 851,784
Public works	486,313	629,256	475,612	1,332,189
Culture and recreation	909,802	686,449	672,576	887,527
Community and economic development .	1,777	6,944	99,075	115,244
General government	295,914	285,331	288,555	304,447
Debt service	1,192,475	2,161,195	4,033,976	2,273,282
Capital projects	<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>	<u> </u>
 TOTAL EXPENDITURES	 <u>\$4,033,245</u>	 <u>\$4,781,667</u>	 <u>\$9,379,641</u>	 <u>\$5,764,473</u>

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated September 11, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Cherokee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Cherokee's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the

internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described as item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Winther, Steve & Co LLP". The signature is written in a cursive, flowing style.

September 11, 2006

CITY OF CHEROKEE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Reportable Condition:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one individual has custody of receipts, prepares bank deposits, picks up bank statements, and performs posting of cash receipts to the cash receipts journal. We also noted this individual is the only authorized signer on the City's primary financial institution account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider having another official or employee added as an authorized signer on the primary financial institution account.

Response - We will consider our control procedures and whether to add another authorized signer to the primary financial institution account.

Conclusion - Response accepted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the following functions: public works, home and community environment, and capital projects. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000
Bill Troth, while serving as City Council Member	Repairs	\$ 5,022

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

Recommendation - The transactions exceeding \$1,500 may represent a conflict of interest. The City should consult legal counsel to determine the disposition of this matter.

Response - The City Attorney will be asked to comment on these transactions.

Conclusion - Response accepted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting - Continued

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-06 Revenue Notes - The City has not complied with various water and sewer revenue note resolutions. While the City has established the respective water and sewer bond and interest sinking funds required by bond resolutions, balances maintained in these funds as of June 30, 2006 were deficient by approximately \$12,000 and \$35,000, respectively, due to insufficient transfers to the funds in previous fiscal years.

Recommendation - The City should make transfers to the water and sewer bond and interest sinking funds necessary to bring the balances into compliance with bond resolution requirements.

Response - We will make the necessary transfers to the respective bond and interest sinking funds to bring them into compliance.

Conclusion - Response accepted.

II-I-06 Interest on Bond Reserve Fund Balances - We noted interest on checking account balances held for the special water and sewer bond funds contained in the Water and Sewer Enterprise Funds is not being credited to the special bond funds. In addition, interest on checking account balances held for the Debt Service Fund is not being credited to the fund. Therefore, the interest on these cash balances is not being used to make payments on indebtedness as required by Chapter 12C.9 of the Code of Iowa.

Recommendation - Interest from checking account balances held for the special bond reserve funds and the Debt Service Fund should be credited to the respective fund.

Response - We will credit checking account interest on bond reserve and debt service cash balances to the respective bond reserve and debt service funds.

Conclusion - Response accepted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting - Continued

- II-J-06 Interest on Road Use Tax Fund Balances - We noted interest on certificate of deposit balances held for the road use tax fund were being credited to the road use tax fund. Chapter 12C.7(2) of the Code of Iowa requires interest on road use tax fund balances be credited to the general fund.

Recommendation - Interest on cash balances held for the road use tax fund should be credited to the general fund.

Response - We will credit interest on cash balances held for the road use tax fund to the general fund.

Conclusion - Response accepted.

- II-K-06 Financial Condition - The following funds had a deficit balance at June 30, 2006:

Proprietary - Sewer
 - Landfill
 - Solid Waste
 - Airport

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Proprietary - Sewer	Reduce spending
- Landfill	Reduce spending
- Solid Waste	Reduce spending
- Airport	Transfers from other funds

Conclusion - Response accepted.

- II-L-06 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded for one financial institution during the year ended June 30, 2006.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - The maximum deposit amount was temporarily exceeded due to the receipt of tax revenues. We will regularly review financial institution account balances for compliance with the depository resolution.

Conclusion - Response accepted.